



Audit Report

Greater Letaba Local Municipality

30 June 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to Limpopo Provincial Legislature and the council on Greater Letaba Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Greater Letaba Local Municipality set out on pages 1 to 72, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement, statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa 2003, (Act No 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2018 (Act No 1 2018) (DoRA).
3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

7. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of an errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Material impairments

8. As disclosed in notes 4, 5 and 6 to the financial statements, material impairments amounting to R6 026 853, R67 266 015 and R95 339 794 were made to receivables from exchange transactions and receivables from non-exchange transactions respectively, as a result of irrecoverable debt.

Unauthorised expenditure

9. As disclosed in note 32 to the financial statements, the municipality incurred unauthorised expenditure amounting to R75 088 605 due to overspending on capital and operational projects.

Irregular expenditure

10. As disclosed in note 34 to the annual financial statements, the municipality incurred irregular expenditure amounting to R46 458 804 due to non-compliance to supply chain management requirement.

Material losses – electricity

11. As disclosed in note 42 to the financial statements, material electricity losses of R1 588 608 (2018: R7 658 574) was incurred, which represents 10.8% (2018:47,69%) of total electricity purchased. The losses were due to illegal connections, faulty meters, incorrect meter readings and other sundry distribution losses

Responsibilities of the accounting officer for the financial statements

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
13. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

14. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

15. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected Development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
17. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2019:

Development priorities	Pages in the annual performance report
KPA 2: Basic services	13 to 14
KPA 4: Municipal financial viability	16 to 21

19. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not raise any material findings on the usefulness and reliability of the reported performance information for these development priorities:
- KPA 2: Basic services
 - KPA 4: Municipal financial viability

Other matters

21. I draw attention to the matters below.

Achievement of planned targets

22. Refer to the annual performance report on pages 13 to 14; 16 to 21 for information on the achievement of planned targets for the year. This information should be considered in the context of the findings on the usefulness and reliability of the reported performance information in paragraphs 20 to 23 of this report.

Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2: basic services, KPA 4: municipal financial viability development priorities. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

24. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
25. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual reports

26. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

Material misstatements of non-current assets, current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and/or the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

27. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R75 088 605, as disclosed in note 32 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of approved budget.
28. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1 019 720, as disclosed in note 33 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on late payment as well as stock losses due to stock shortage and theft.
29. Reasonable steps were not taken to prevent irregular expenditure amounting to R46 458 804 as disclosed in note 34 to the annual financial statements, as required by section 62(1)(d) of

the MFMA. The majority of the irregular expenditure was caused by non-compliance to supply chain management requirement.

Consequences management

- 30. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
- 31. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Asset management

- 32. Funds were invested at a mutual bank, in contravention of municipal investment regulation 6.

Procurement and contract management

- 33. Bid specifications for some of the tenders were drafted in a biased manner and did not allow all potential suppliers to offer their goods or services, in contravention of Supply Chain Management (SCM) regulation 27(2)(a).
- 34. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) and the preferential procurement regulations.
- 35. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).

Other information

- 36. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
- 37. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
- 38. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
- 39. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract

this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary

Internal control deficiencies

40. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion, and the findings on compliance with legislation included in this report.
41. There was no detailed review of the financial statements, resulting in several misstatements not identified and corrected.
42. The basic accounting principles of daily and monthly accounting and reconciling have not been implemented.
43. Supply chain management processes were inadequate resulting in irregular expenditure.
44. The financial statements were not reviewed for accuracy and completeness by the accounting officer.

Other reports

45. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
46. A law enforcement agency investigated two employees on allegations of bribery and corruption. The investigation concluded after 30 June 2019. The employees were criminally charged. Before the internal disciplinary processes started, the employees resigned.

Auditor-General
Polokwane

13 December 2019



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Greater Letaba Local Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.